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HOUSE OF REPRESENTATIVES

FINANCIAL-COMPLIANCE AUDIT FOR THE
TWO FISCAL YEARS ENDED JUNE 30, 1985

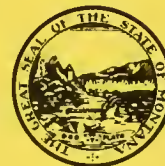
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STATE OF MONTANA
HOUSE OF REPRESENTATIVES

FINANCIAL-COMPLIANCE AUDIT FOR THE
TWO FISCAL YEARS ENDED JUNE 30, 1985

PERFORMED UNDER CONTRACT BY:

EVE LAIRD & COMPANY
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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

DEPUTY LEGISLATIVE AUDITORS:

JAMES GILLETT
FINANCIAL-COMPLIANCE AUDITS

JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY



SCOTT A. SEACAT
LEGISLATIVE AUDITOR

October 29, 1985

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of the Legislature - House of
Representatives for the two fiscal years ended June 30, 1985.

The audit was conducted by Eve Laird and Company under a contract
between the firm and our office. The comments and recommendations
contained in this report represent the views of the firm and not
necessarily the Legislative Auditor.

The agency's written response to the report recommendations is
included in the back of the audit report.

Respectfully submitted,

A handwritten signature in cursive script that reads "James Gillett".

James Gillett
Deputy Legislative Auditor

TABLE OF CONTENTS

	<u>Page</u>
Officers and Officials	ii
Summary of Recommendations	iii
Introduction	1
Background	1
Internal Control	1-2
Fixed Asset Inventory Records	2-3
"Exempt" Positions Compensation	3
State Compliance	3
Prior Audit Recommendations	3
Auditors' Report	4
Schedules of Agency Financial Activity:	
Schedule of Changes in Fund Balance	5
Schedule of Program Expenditures by Fund - Budget and Actual	6
Schedule of Program Expenditures by Object	7
Notes to the Financial Schedules	8-9
Agency Responses	10

OFFICERS AND OFFICIALS
HOUSE OF REPRESENTATIVES
49TH LEGISLATIVE SESSION

Speaker	John Vincent
Republican House Leader	Robert Marks
Speaker Pro Tempore	Rex Manuel
Chief Clerk	Ed Smith

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's response.

Page

Recommendation #1

That all property acquisitions be recorded into the PAMS listing in a timely fashion, so that the PAMS listing is current and available for financial statement purposes.

3

Agency Response: Concur. See page 10.

Recommendation #2

That the Legislature should clarify the intent of this resolution, indicating whether the salary for 48 hours a week applies just when the Legislature is in session or on a year round basis.

3

Agency Response: Concur. See page 10.

INTRODUCTION

We performed a financial-compliance audit of the House of Representatives for the two fiscal years ended June 30, 1985. The objectives of the audit were to: (1) determine if the financial schedules present fairly the office's results of operations for the two fiscal years ended June 30, 1985; (2) determine if the office complied with applicable laws and regulations; and (3) make recommendations for improvement in the management and internal controls of the office.

This report contains recommendations to the management of the House of Representatives. These recommendations address areas where the management of the House can improve management, internal control, financial reporting, and compliance with laws and regulations. Other areas of concern deemed not to have a significant effect on the successful operations of the House of Representatives programs are not specifically included in the report, but have been discussed with management.

In accordance with Section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

We thank the staff of the House of Representatives and the Legislative Council for their cooperation and assistance during our audit.

BACKGROUND

Article V of the Montana Constitution of 1972 vests legislative power in a legislature comprised of a Senate and a House of Representatives. The Legislature is a continuous body that meets at least once each odd-numbered year in a regular session of not more than 90 days. Special sessions may be convened by the Governor or upon written request of a majority of the members.

The House of Representatives had expenditures of \$221,760 during the fiscal year 1983-84 and \$1,925,499 during fiscal year 1984-85. The 49th legislative session took place during fiscal year 1984-85.

INTERNAL CONTROL

We have examined the financial schedules of the House of Representatives for the two fiscal years ended June 30, 1985. We issued our opinion dated October 17, 1985 on these schedules. As part of our examination, we made a study and evaluation of the Council's control system. Our study evaluated the system as required by generally accepted governmental auditing standards for financial and compliance audits. We classified the controls in the following categories:

1. Expenditures/liabilities;
2. property, plant, and equipment; and
3. payroll.

INTERNAL CONTROL (Cont.)

Our study included the control categories listed above. We applied alternative audit tests to property, plant, and equipment as we determined it was more efficient to expand substantive testing for this area. Through our study, we determined the nature, timing, and extent of our auditing procedures. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of the House of Representatives is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: (1) assets are safeguarded against loss from unauthorized use or disposition; (2) transactions are executed in accordance with management's authorization; and (3) transactions are recorded properly to permit the preparation of financial schedules in accordance with state accounting policies. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of controls used by the House of Representatives.

This report is intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

The following report items discuss areas of concern noted during our audit of the House of Representatives.

FIXED ASSET INVENTORY RECORDS

Property Accountability Management System (PAMS) was set up by the State of Montana as a subsystem for the accounting to manage and account for fixed assets which are owned by the State. The management of the House of Representatives has not utilized PAMS and these problems are discussed in the following paragraphs.

FIXED ASSET INVENTORY RECORDS (CONT.)

None of the acquisitions of fixed assets obtained by the House of Representatives during the two years ended June 30, 1985 have been entered into the PAMS listing. All fixed assets over \$200 are to be recorded in the property accounting as required by accounting policy. Unrecorded fixed assets have been discussed with the applicable officials and it has been verified that the House of Representatives is now in the process of recording the fixed assets that were acquired during the audit period.

Recommendation

We recommend that all property acquisitions be recorded into the PAMS listings in a timely fashion, so that the PAMS listings are current and available for financial statement purposes.

"EXEMPT" POSITIONS COMPENSATION

House Joint Resolution No. 7 concerning the classification, pay and other conditions of employment of Legislative employees provided that employees in positions classified at Grade 17 and above must receive their salary for 48 hours a week, regardless of the number of hours worked. The resolution, however, does not address the issue of whether this applies on a year round basis or just during the period when the Legislature is in session. We noted during our examination, that the Chief Clerk of the House and the Sergeant-at-arms were being paid for 48 hour weeks after the Legislature had recessed.

Recommendation

The Legislature should clarify the intent of this resolution, indicating whether the salary for 48 hours a week applies just when the Legislature is in session or on a year round basis.

STATE COMPLIANCE

We reviewed compliance with state laws that could have a material impact on the financial schedules of the House of Representatives. In our opinion, the House of Representatives complied with the state laws and regulations tested. Nothing came to our attention that causes us to believe untested compliance issues are not in accordance with applicable laws and regulations.

Prior Audit Recommendations

The House of Representatives was audited for the two fiscal years ended June 30, 1983. No recommendations were made in the previous audit.

AUDITORS' REPORT
AND SCHEDULES OF AGENCY FINANCIAL ACTIVITY

Eve Laird & Company
Certified Public Accountants

Suite 514 Strain Building
Great Falls, Montana 59401
Phone (406) 727-1798

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial schedules of the House of Representatives for each of the two fiscal years ended June 30, 1985 and 1984 as listed in the table of contents. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 1 to the financial schedules, the House of Representative's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the schedules referred to above present fairly the results of operations and the changes in fund balance of the House of Representatives for the two fiscal years ended June 30, 1985, in conformity with the basis of accounting described in Note 1, applied on a consistent basis.

Eve Laird & Company

EVE LAIRD & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

October 17, 1985

HOUSE OF REPRESENTATIVES
SCHEDULE OF CHANGES IN FUND BALANCE
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1985

	GENERAL FUND
Fund Balance, July 1, 1983	<u>\$0</u>
Additions:	
Fiscal Year 1984	
Support from State of Montana	221,779
Fiscal Year 1985	
Nonbudgeted Revenue - Service Fees	283
Support from State of Montana	1,925,216
Total Additions	<u>2,147,278</u>
Reductions:	
Fiscal Year 1984	
Expenditures	221,760
Prior Year Expenditures	19
Fiscal Year 1985	
Expenditures	1,925,499
Total Reductions	<u>2,147,278</u>
FUND BALANCE, JUNE 30, 1985	<u><u>\$0</u></u>

See the accompanying accountants' report and notes to the financial schedules.

HOUSE OF REPRESENTATIVES
SCHEDULE OF PROGRAM EXPENDITURES BY FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEARS ENDED JUNE 30, 1985 AND 1984

	JUNE 30, 1985	JUNE 30, 1984
	<u> </u>	<u> </u>
GENERAL FUND		
Budget	\$2,433,340	\$523,508
	<u> </u>	<u> </u>
Actual		
Personal Services	1,675,124	199,332
Operating Expenses	112,824	22,428
Equipment	137,551	
	<u> </u>	<u> </u>
Total Actual	1,925,499	221,760
	<u> </u>	<u> </u>
Unspent Appropriation Authority	\$507,841	\$301,748
	<u> </u>	<u> </u>
ALL FUNDS TOTAL		
Budget	\$2,433,340	\$523,508
	<u> </u>	<u> </u>
Actual		
Personal Services	1,675,124	199,332
Operating Expenses	112,824	22,428
Equipment	137,551	
	<u> </u>	<u> </u>
Total Actual	1,925,499	221,760
	<u> </u>	<u> </u>
Unspent Appropriation Authority	\$507,841	\$301,748
	<u> </u>	<u> </u>

See the accompanying accountants' report and notes to the financial schedules.

HOUSE OF REPRESENTATIVES
SCHEDULE OF PROGRAM EXPENDITURES BY OBJECT
FOR THE FISCAL YEARS ENDED JUNE 30, 1985 AND 1984

	JUNE 30, 1985	JUNE 30, 1984
Personal Services		
Salaries	\$967,855	\$50,643
Hourly Wages	400	148
Other Compensation	490,365	27,000
Employee Benefits	216,504	121,541
Total Personal Services	<u>1,675,124</u>	<u>199,332</u>
Operating Expenses		
Contracted Services	21,747	421
Supplies & Materials	23,131	2,316
Communications	6,628	6,750
Travel	52,741	10,958
Rent	5,902	1,808
Repair & Maintenance	2,009	
Other Expenses	666	175
Total Operating Expenses	<u>112,824</u>	<u>22,428</u>
Equipment and Intangibles		
Equipment	133,176	0
Intangibles	4,375	
Total Equipment and Intangibles	<u>137,551</u>	<u>0</u>
TOTAL PROGRAM EXPENDITURES	<u><u>\$1,925,499</u></u>	<u><u>\$221,760</u></u>

See the accompanying accountants' report and notes to the financial schedules.

HOUSE OF REPRESENTATIVES

NOTES TO THE FINANCIAL SCHEDULES JUNE 30, 1985 AND 1984

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The House of Representatives utilizes the modified accrual basis of accounting which is described in the Montana Operations Manual.

Under the modified accrual basis of accounting, a valid obligation exists when the related liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which budgeted.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

Basis of Presentation

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to State law. The following fund types are used by the office:

General - accounts for all financial resources except those required to be accounted for in another fund.

Vacation and Sick Leave

Employees and members of the House of Representatives are not eligible for vacation and sick leave, as they are not permanent employees. They were instead paid an additional 14 cents per hour during 1983-84, and an additional 20 cents per hour during 1984-85 in lieu of benefits.

HOUSE OF REPRESENTATIVES

NOTES TO THE FINANCIAL SCHEDULES (CONT.) JUNE 30, 1985 AND 1984

2. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System (PERS). The office's contributions to the plan are shown below:

	<u>Fiscal Year</u> <u>1984-85</u>	<u>Fiscal Year</u> <u>1983-84</u>
PERS	\$19,664	\$11,476

3. GENERAL FUND BALANCE

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency schedule, the General Fund beginning and ending fund balance will always be zero.

4. GENERAL FIXED ASSETS

The House of Representatives records assets on the State's Property and Accountability Management System. The general fixed asset equipment balance at June 30, 1985 is \$156,963. This amount does not include acquisitions of \$133,018 during the fiscal years 1985 and 1984, but does include deletions of \$603.

AGENCY RESPONSES

Legislative Council Response
Financial Compliance Audit of House of Representatives
Two Fiscal Years Ending June 30, 1985

Fixed Asset Inventory Record

Agree. Council staff is available to assist House staff in this effort if required.

"Exempt" Positions Compensation

Agree. The resolution is very difficult to administer and is being interpreted differently by various parties. An alternative would be a Resolution providing that House and Senate exempt positions earn "comp" time during a session in the same manner as all other professional legislative staff and be paid for actual hours worked during an interim.

Elena S. Dowling

